

Message Text

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ACTION NEA-10

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AMEMBASSY ABU DHABI

AMEMBASSY AMMAN

AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY SANA

AMEMBASSY TEHRAN

USINT BAGHDAD

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E.O. 11652: N/A

TAGS: BGEN, EGEN KU

SUBJECT: KUWAIT AS A REGIONAL BUSINESS CENTER

SUMMARY: PARTLY BECAUSE OF DEVELOPMENTS IN BEIRUT AND PARTLY BECAUSE OF EXISTING BUSINESS TRENDS, THERE IS AN INCREASING INTEREST AMONG US FIRMS TO ESTABLISH OFFICES IN KUWAIT. IN MANY INSTANCES THIS PROBABLY CAN BE DONE WITH MINIMAL DIFFICULTY, BUT KUWAITIS ARE NOT CERTAIN A SUDDEN SURGE OF REGIONAL OFFICES HERE IS IN THEIR INTEREST. ATTITUDES VARY AND PROBABLY ARE SUBJECT TO CHANGE. FOR US FIRMS, KUWAIT PRESENTS BOTH ADVANTAGES AND DISADVANTAGES. KUWAIT'S ATTRACTIVENESS ALWAYS

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WILL BE RELATIVE TO WHETHER MORE APPEALING PLACES SUCH AS

CAIRO OR BEIRUT ARE THEMSELVES REALISTIC ALTERNATIVES. IT SEEMS LIKELY SEVERAL NEW COMPANIES WILL ESTABLISH OFFICES HERE, BUT THEY AND OTHERS CONSIDERING LOCATING IN KUWAIT SHOULD KEEP IN MIND FACTORS WHICH DISTINGUISH IT FROM OTHER PLACES AND SHOULD CLEARLY UNDERSTAND THAT KUWAITIS WILL BE WEIGHING SEVERAL COSTS AND BENEFITS OTHERS PROBABLY DO NOT WORRY ABOUT. END SUMMARY.

1. OVER THE PAST FEW YEARS AN INCREASING NUMBERBF AMERICAN FIRMS HAVE DECIDED TO ESTABLISH OFFICES IN KUWAIT. DURING THE PERIOD THE NUMBER OF AMERICANS RESIDENT HERE HAS DOUBLED AND US EXPORTS ARE HEADING TOWARD A 400 PERCENT INCREASE OVER 1972. RECENT DEVELOPMENTS, INCLUDING THE CREATION OF SEVERAL NEW INSTITUTIONS AND THE INCREASING IMPORTANCE OF THOSE ALREADY HERE, HAVE ATTRACTED ATTENTION TO KUWAIT. THOUGH NOT AS COMFORTABLE AS BEIRUT OR TEHRAN, NOR AS AGGRESSIVELY OPEN AS DUBAI OR BAHRAIN, KUWAIT IS REASONABLY "LIVABLE" AND BECOMING MORE SO. COMPARED TO SAUDI ARABIA, EGYPT OR IRAQ, OF NEARBY ARAB COUNTRIES WHERE THE ACTION IS, KUWAIT IS RELATIVELY LIBERAL, SOPHISTICATED AND EFFICIENT. WHATEVER THE REASONS, BETWEEN FORTY AND FIFTY AMERICAN COMPANIES NOW HAVE OFFICES IN KUWAIT AND SEVERAL MORE HAVE A PRESENCE HERE THROUGH JOINT VENTURES, MANAGEMENT CONTRACTS AND SIMILAR DEVICES.

2. WITH RECENT TROUBLES IN BEIRUT, HOWEVER, THE GRADUALLY RISING TREND HAS QUICKENED. THE BEIRUT TROUBLES OCCURRED AS HUNDREDS OF MILLIONS OF DOLLARS IN NEW CONTRACTS WERE BEING AWARDED LOCALLY TO AMERICAN COMPANIES. IN OTHER WORDS, EVEN WITHOUT BEIRUT, THE PACE OF ARRIVAL OF NEW COMPANIES WAS LIKELY TO INCREASE. BUT BEIRUT CLEARLY IS HAVING A MAJOR IMPACT, AND SUCH FIRMS AS HUGHES, IBM, 3M, BORDENS, GOODYEAR AND OTHERS ARE COMING TO KUWAIT TO ONE DEGREE OR ANOTHER OR ARE, AT LEAST, SERIOUSLY CONSIDERING DOING SO. THE MOST IMPORTANT NEW ARRIVAL IS BECHTEL WHICH HAS DECIDED TO MAKE KUWAIT ONE OF THREE TOP REGIONAL CENTERS (THE OTHERS BEING PARIS AND JAKARTA). BECHTEL WILL HAVE THREE SENIOR CORPORATE EXECUTIVES HERE, AND ONE OF ITS OPERATING DIVISIONS WILL BE HEADQUARTERED HERE. THE KUWAIT OFFICE WILL OVERSEE ACTIVITIES IN ENGLAND.

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3. WHAT ARE THE ATTRACTIONS KUWAIT OFFERS? THERE ARE THREE BASIC ATTRACTIONS. FIRST, THERE IS BUSINESS IN KUWAIT ITSELF. OVER THE NEXT SEVERAL YEARS KUWAIT WILL SPEND BILLIONS ON THE WHOLE RANGE OF INDUSTRIAL, INFRASTRUCTURE AND OTHER ACTIVITIES THAT ADD UP TO ECONOMIC DEVELOPMENT. IN ADDITION, OAPEC, THE AID FUNDS, THE INVESTMENT COMPANIES AND OTHER REGIONAL BODIES ARE BASED HERE SO THAT KUWAIT CAN LEGITIMATELY CLAIM TO HAVE A REGIONAL CHARACTER THAT, SAY, DUBAI OR

BAHRAIN CANNOT. SECONDLY, KUWAIT HAS A REASONABLY DEVELOPED INFRASTRUCTURE. THINGS WORK, AT LEAST COMPARED TO MOST OTHER CITIES IN THE MIDDLE EAST. ITS TELECOMMUNICATIONS ARE GOOD, AND AIR SERVICE TO KUWAIT IS NOT BAD; IT WILL GET BETTER. IN SHORT, ONE CAN OPERATE A BUSINESS HERE.

4. LESS SIMPLE TO EXPRESS, BUT PERHAPS AS IMPORTANT IS THE THIRD BASIC ATTRACTION, THE PSYCHOLOGICAL. BY REGIONAL STANDARDS, KUWAIT IS ONE OF THE POLITICALLY FREEST AND MOST STABLE COUNTRIES. THERE IS GENUINE FREEDOM OF EXPRESSION. THE RULE OF LAW AND THE SPIRIT OF LIBERTY ARE REAL IN KUWAIT, WITH A TRADITION BEHIND THEM. IN ADDITION, PEOPLE HERE UNDERSTAND AND EVEN ENJOY THE WORLD OF BUSINESS AND ECONOMICS; THE ENTREPRENEURIAL INSTINCT IS STRONG, AND SO IS THE TECHNOCRATIC. IN THIS AREA, PARTICULARLY IN FINANCE, THE COMMUNITY CAN BE CALLED COSMOPOLITAN AND SOPHISTICATED. FINALLY, THERE HAS TRADITIONALLY BEEN A STRONG DEGREE OF FRIENDSHIP AND ADMIRATION TOWARD AMERICANS, EVEN AMONG THE MANY PALESTINIANS IN KUWAIT.

5. BUT THERE IS ANOTHER SIDE. KUWAIT IS, AFTER ALL, BASICALLY A SMALL, YOUNG COUNTRY ONLY RECENTLY ARRIVED AT ITS PRESENT STAGE OF DEVELOPMENT. IT LACKS THE HISTORY OF EGYPT AND THE CULTURAL SOPHISTICATION OF OTHER CITIES IN THE REGION. A CONSERVATIVE PHILOSOPHY IS MANIFESTED BY LAWS AGAINST DRINKING AND PRESSURES TO SEGREGATE THE AMERICAN SCHOOL BY SEX. KUWAIT IS A DESERT. THE WEATHER IS HOT.

6. THE REAL PROBLEM, HOWEVER, IS THAT IN THEIR SOPHISTICATION AS BUSINESSMEN, THE KUWAITIS ARE CAUTIOUS IN THEIR WELCOME TO FOREIGN FIRMS. UNLIKE BEIRUT, AMMAN, BAHRAIN OR OTHER PLACES, KUWAIT SEES LITTLE IMMEDIATE BENEFIT TO BE DERIVED BY A WHOLESALE INCREASE IN FOREIGN FIRMS HAVING REGIONAL OFFICES HERE. SINCE THERE ARE NO TAXES, THERE ARE NO TAX BENEFITS.

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UNEMPLOYMENT IS NO PROBLEM; IF ANYTHING, THE NEW ARRIVALS WILL EXACERBATE THE LABOR SHORTAGE AND AT THE SAME TIME BID-UP RENTS, THE COST OF LABOR, ETC. AND TAX TELEPHONE AND TELEX FACILITIES, OFFICE SPACE, ETC. IN SHORT, EACH NEW COMPANY, KUWAITIS ARGUE, BRINGS A NET COST TO THE COUNTRY.

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AMEMBASSY ABU DHABI

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AMEMBASSY BEIRUT

AMEMBASSY CAIRO

AMEMBASSY DAMASCUS

AMCONSUL DHAHRAN

AMEMBASSY DOHA

AMEMBASSY JIDDA

AMEMBASSY MANAMA

AMEMBASSY MUSCAT

AMEMBASSY SANA

AMEMBASSY TEHRAN

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7. RELATED TO SUCH CONCERNS IS ONE REGARDING CONTROL OF KUWAIT'S ECONOMY. AS IS GENERALLY KNOWN, FOREIGN BANKS ARE NOT ALLOWED HERE, BECAUSE KUWAITI AUTHORITIES WANT TO MAINTAIN CONTROL OVER LOCAL BANKING. THIS ATTITUDE COULD BE APPLIED TO OTHER AREAS AS WELL. NEVERTHELESS, KUWAIT IS, AFTER ALL, A DEVELOPING COUNTRY AND IT DOES WANT THOSE FOREIGN ORGANIZATIONS THAT CAN ASSIST IN THE DEVELOPMENT OF THE COUNTRY, INCLUDING THE DEVELOPMENT OF KUWAIT AS A REGIONAL BUSINESS CENTER. THUS, THOUGH BANKS ARE NOT ALLOWED AS BANKS, US BANKING INSTITUTIONS ARE ALLOWED IN OTHER CAPACITIES. AND SOME, NOTABLY BANK OF AMERICA, HAVE BEEN EXTREMELY SUCCESSFUL IN TRANSLATING THEIR OFF-BEAT PRESENCE INTO A PARTICULARLY REWARDING GENERAL UNCLASSIFIED

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RELATIONSHIP WITH KUWAIT.

8. ON BALANCE, WE THINK KUWAIT CAN AND WILL ACCOMMODATE THE ESTABLISHMENT OF SEVERAL MORE AMERICAN OFFICERS HERE, PARTICULARLY

WHERE THE US FIRM INTENDS TO HAVE A SMALL PRESENCE THAT CAN WORK WITHOUT MUCH DIFFICULTY UNDER THE SPONSORSHIP OF THE COMPANY'S TRADITIONAL AGENT. IN THAT SENSE, KUWAIT IS AN ALTERNATIVE TO BEIRUT. BUT IT WOULD BE WELL FOR US FIRMS THAT WISH TO COME HERE, PARTICULARLY THOSE WHICH MAY BE CONSIDERING LARGER OPERATIONS: (1) TO FOCUS FIRMLY ON BOTH THE PROS AND CONS, AND, (2) TO CONSIDER HOW THEIR PRESENCE HERE CAN ENHANCE THE DEVELOPMENT OF KUWAIT, SINCE THIS IS THE BASIC QUESTION THE KUWAITI CAN BE EXPECTED TO POSE.

9. GENERALLY, THE COMPANIES THINKING OF COMING HERE AND THE KUWAITIS REACTING TO THIS DEVELOPMENT ARE BOTH THINKING IN SHORT AND MEDIUM TERMS. IT SHOULD BE NOTED, HOWEVER, THAT THE EVOLUTION OF THE FOREIGN BUSINESS COMMUNITY IN KUWAIT HAS IMPORTANT LONG TERM IMPLICATIONS. HOW AND WHETHER KUWAIT DEVELOPS AS A REGIONAL BUSINESS CENTER WILL BE SIGNIFICANT IN RELATION TO THE ECONOMIC DEVELOPMENT OF THE COUNTRY AS AND AFTER THE OIL RUNS OUT.
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